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APPLICATION OF	§	**STATE OFFICE OF**
SOUTHWESTERN ELECTRIC	§	
POWER COMPANY FOR	§	
AUTHORITY TO CHANGE RATES	§	**ADMINISTRATIVE HEARINGS**

DIRECT TESTIMONY
of
KIT PEVOTO

on behalf of

EAST TEXAS SALT WATER DISPOSAL COMPANY AND
EAST TEXAS OIL AND GAS PRODUCERS

March 31, 2021

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DIRECT TESTIMONY
OF
KIT PEVOTO

I. WITNESS IDENTIFICATION AND QUALIFICATIONS

Q. Please state your name and business address.

A. My name is Kit Pevoto. My business address is 13436 Athens Trail, Austin, Texas 78737.

Q. On whose behalf are you testifying in this proceeding?

A. I am filing testimony on behalf of East Texas Salt Water Disposal Company ("ETSWD"). ETSWD takes service from SWEPCO under the Oilfield rate schedule.

Q. What are your principal areas of responsibility in this proceeding?

A. My principal areas of responsibility include reviewing Southwestern Electric Power Company's ("SWEPCO's") application for cost allocation and rate design issues, providing expert recommendations to ETSWD, and providing expert testimony.

Q. Please describe your educational background and professional experience.

A. I received a Master of Science degree in Electrical Engineering from the University of Texas at Arlington. After completing my graduate study, I began working for the Public Utility Commission of Texas ("PUC" or the "Commission") on a federally-funded project to study the benefits of integrating wholesale systems in Texas. In 1997, while still at the PUC, I began working on the development of transmission access and pricing rules for the Texas wholesale electricity market. These rules provided for equal and open access to the Electric Reliability Council of Texas' ("ERCOT") transmission system for all wholesale customers. The rules became the foundation for the development of the deregulated electric wholesale market in Texas, as directed by the Texas Legislature in 1995.

In addition to the transmission access rulemaking project, I also worked as a PUC Staff expert on cost allocation and rate design in a number of rate cases involving

cooperatives and investor-owned utilities ("IOUs"). My work included developing complex cost allocation models and rate design analyses. Because of my involvement in these cases, I became very familiar with cost allocation models for all IOUs under the Commission's jurisdiction.

In 1997, after becoming the Manager of the Costing and Pricing Section at the PUC, I started a project to separate the costs of nine IOUs in Texas into generation, transmission, distribution, metering & billing, and customer service categories. The project produced a report that explains the procedures used to separate costs and, more importantly, delineates the cost separation for each of the nine IOUs. The unbundled cost information presented in the report was used by the Commission to assist the Texas Legislature in developing the electric deregulation bill (Senate Bill 7) in 1999. During the 1999 legislative session, I developed information and data for the Legislature to review while it was finalizing Senate Bill 7. I was also very involved in negotiations among parties regarding allocation of stranded costs among customers and assisted in drafting the stranded cost allocations language found in Senate Bill 7 at PURA § 39.253. In the spring of 2000, shortly after eight Texas IOUs filed their cost unbundling cases, I was involved in Docket No. 22344, Generic Issues Associated with Applications for Approval of Unbundled Cost of Service Rates Pursuant to PURA § 39.201 and 16 Texas Administrative Code ("TAC") § 25.344. I testified on behalf of the Commission Staff on issues related to cost allocation and rate design for non-bypassable charges to be applied in these unbundling cases. I recommended a simplified and uniform rate design for the transmission and distribution rates for all IOUs. The Commission eventually adopted my recommendations with very minor modifications.

I left the Commission in May 2001 to pursue a consulting career. I have provided a summary of my educational background and professional experience in Attachment KP-1.

II. SCOPE OF TESTIMONY AND SUMMARY OF RECOMMENDATIONS

Q. What is the purpose of your Direct Testimony?

A. The purpose of my testimony is to address the cost allocation and rate design proposed by SWEPCO.

Q. Please summarize your recommendations.

A. I recommend the following:

1. SWEPCO's Texas Retail rate class cost allocation study should be updated to account for changes to electricity usage caused by the COVID-19 pandemic or at least revised to include all of known and measurable adjustments related to COVID-19 pandemic impacts.
2. Rate moderation should be used to mitigate rate shock. SWEPCO's proposed rate moderation method is reasonable and should be used to determine base rate revenue requirement distribution among Texas rate classes.
3. SWEPCO's service territory is changing, as evidenced by the closure of its biggest industrial customers. Given these changes, ETSWD's declaratory order petition for a customer choice pilot project, Docket No. 51527, makes sense as a tool to obtain information for the Commission to determine whether retail choice may benefit Texans in SWEPCO's service territory.
4. SWEPCO's proposal for the over- or under-recoveries of its ongoing Southwest Power Pool ("SPP") Open Access Transmission Tariff ("SPP OATT") cost over the net Test Year SPP OATT cost, as approved by the Commission in this rate case

to be deferred into a regulatory asset or liability and to be addressed later in either a Transmission Cost Recovery Factor ("TCRF") case or a base rate case, should be rejected.

Q. In addition to your testimony, are you sponsoring any workpapers or other attachments?

A. Yes. I am sponsoring Attachment KP-1, which is a summary of my educational background and professional experience. I have also attached as Attachment KP-2, SWEPCO's response to Request for Information ETSWD 2-4; as Attachment KP-3, SWEPCO's response to Request for Information ETSWD 3-1; as Attachment KP-4, SWEPCO's response to Request for Information ETSWD 3-2.

Q. Did you prepare the documents that you are sponsoring and are they true and correct?

A. Yes. The workpapers and attachments that I sponsor were prepared by me, and are true and correct. The attached Requests for Information are accurate representations of SWEPCO's sworn discovery responses.

III. RATE IMPACT ON ETSWD

Q. Please generally describe East Texas Salt Water Disposal Company.

A. ETSWD operates saltwater disposal facilities for oil producers in the Woodbine Formation, also known as the East Texas Oil Field ("East Texas Field"). Salt water is used to move oil from the reservoir to the wellbore and ultimately to the surface and must be extracted to produce oil from the East Texas Field. ETSWD disposes of salt water extracted from the East Texas Field and stores it in disposal wells.

Q. Please describe ETSWD's electricity consumption.

A. All members in ETSWD are small and medium industrial customers purchasing electricity from SWEPCO under the Oilfield (OLI) rate tariff. These members' operations rely heavily on electricity. Electric costs are the largest operating expenses for ETSWD. Indeed, about 34 percent of ETSWD's operation costs is for electricity. ETSWD's electricity usage dropped by 12 percent in 2020 from 2019. The declines are due to low oil and gas prices and the low demand as a result of the COVID-19 pandemic. The low oil prices and low demand, which forced the wells to reduce production, have caused producers, including ETSWD's members, to shut-in hundreds of wells and to operate many wells marginally.

Q. Please describe the impact of SWEPCO's proposed base rate increase on ETSWD operation costs.

A. The following table shows the rate and cost impacts of SWEPCO's proposed base rate increases on the Oilfield rate classes:

Docket No. 51415 OLI Rate Classes Rate Impact					
OLI class	Present base rate Revene (1)	SWEPCO Proposed base rate increase (2)	% base rate Change (3)	% Change of total revenue (4)	% Change in OLI customer total cost (5)
OLI Pri	10,636,387	3,507,760	32.98%	15.79%	5.4%
OLI Sec	588,848	194,196	32.98%	16.19%	5.5%

As seen in this table, SWEPCO's proposed 33 percent base rate increase would result in about a 5.5 percent increase in the Oilfield rate class customers' total operation costs[1]. This cost impact is significant for these oil and gas producers because now the

[1] The 5.5 percentage increase is determined by multiplying a 34 percent (the percentage of the total operation cost for electricity) by a 15.79 percent change of total revenue (Column (4)-percentage increase on customers' electricity cost).

electricity expenses would make up about 40 percent of their operation costs, increasing from the current 34 percent. Larger electricity costs mean smaller economic margin to allow the oil and gas producers to continue their operations. Many of the wells are already marginally operating and could become more uneconomical to operate with an additional electricity cost increase.

Q. Please describe ETSWD's effort to reduce its electricity costs.

A. The increases in electricity costs resulting from SWEPCO's last and current rate cases make it more difficult for oil producers to keep their operations sustainable. ETSWD has been actively searching for ways to reduce its electricity costs. It continues to look for ways to run its operation and wells in a manner that requires less electricity. ETSWD also is exploring other SWEPCO tariff rate options to minimize costs, as discussed later in this testimony. Furthermore, ETSWD is exploring opportunities to obtain cheaper generation resources.

IV. PRO-FORMA ADJUSTMENTS TO TEST YEAR BILLING DETERMINANTS

Q. Has SWEPCO made any pro-forma adjustments to the test year billing determinants related to loss of customers after the end of the test year?

A. Yes, SWEPCO has made pro-forma adjustments to the test year billing determinants to reflect the permanent closure of three industrial customers by the end of 2020: U.S. Steel at Lone Star, Texas and at Hughes Springs, Texas; Domtar at Ashdown, Arkansas; and Libbey Class at Shreveport, Louisiana by the end of 2020. These three industrial customers announced the permanent closure of their operations after the end of the test year. These three customers' electricity usage during the test year was approximately 403.4 GWh. U.S.

Steel attributes its closure to the dramatic decline in business caused by the COVID-19 pandemic. Libbey Glass also acknowledges that the shutdown of its plant at Shreveport, Louisiana is due to declining demand exacerbated by the COVID-19 pandemic. U.S. Steel was the largest customer in SWEPCO's Texas jurisdiction service territory.

Q. Has SWEPCO made any pro-forma adjustments to the test year billing determinants to reflect the impact of COVID-19 pandemic on Texas retail customers other than U.S. Steel?

A. No. According to its response to Request for Information ("RFI") Question No. ESTWD 2-4 (See Attachment KP-2), SWEPCO explains that no pro-forma adjustments for COVID-19 impact were performed to the test year load and customer data for customers other than the three industrial customers was not made because the COVID-19 impacts to these customers were neither fully known nor measurable. In its response to RFI Question No. ESTWD 3-1 (See Attachment KP-3), SWEPCO further explains that at the time of the rate case filing, it had not fully deployed interval metering for all customer classes and therefore was not able to measure the impact of COVID-19 on the test year data. In addition, SWEPCO states that, at the time of the filing, it did not know the impact that the first stimulus package, the CARES ("Coronavirus Aid, Relief, and Economic Security") Act, would have on the SWEPCO sales. Therefore, SWEPCO claims it was not able to measure the impact of COVID-19 on Texas retail sales at the time of this filing. SWEPCO also contends in its response that the unknown impacts that could result from two additional stimulus packages and the fact that the pandemic is still on-going make it difficult to fully measure the COVID-19 impact on SWEPCO's Texas Retail sales.

Q. Has SWEPCO monitored its monthly sales statistics since the COVID-19 pandemic began?

A. Yes, it has, and SWEPCO has noticed an overall decline in its retail sales since the COVID-19 pandemic began in March 2020.[2] The following table summarizes a comparison of 2020 to 2019 kwh sales for Residential, Commercial, and Industrial rate classes:[3]

Table 1. Annual Normalized Kwh Sale Summary			
	2019	2020	% Change
Residential	2,169,925,672	2,240,571,940	3.3%
Commercial	2,148,279,721	2,040,778,572	-5.0%
Industrial	2,862,718,735	2,665,761,798	-6.9%
Total Texas Retail	7,208,142,812	6,974,097,934	-3.2%

As shown in this table, compared to 2019, SWEPCO's total Texas Retail kwh sales dropped 3.2 percent in 2020. And, while Residential kwh sale *increased* by 3.3 percent, Commercial and Industrial kwh consumption *declined* by 5 percent and 6.9 percent, respectively.

Q. In addition to the three closing industrial customers already identified, has SWEPCO identified additional permanent losses of commercial and industrial customers since the end of test year?

A. Yes, in its response to RFI Question No. ETSWD 3-2 (See Attachment KP-4), SWEPCO has identified a customer that has temporarily idled and a customer that has announced closure.[4] The temporarily idled customer is a commercial customer and the other customer closed its industrial plant.

[2] SWEPCO's response to RFI Question No. ESTWD 3-1(b).

[3] Data Source: SWEPCO's response to RFI Question No. ESTWD 3-1(c).

[4] SWEPCO's response to ETSWD's third set of RFIs Question No. ESTWD 3-2.

Q. How does the COVID-19 pandemic cause significant changes to electricity consumption?

A. To prevent and slow the spread of the COVID-19 virus starting March 2020, federal, state, and local governments have implemented measures including issuing stay-at-home orders, closing all non-essential businesses, ordering curfews, and banning public events and gatherings. These measures resulted in changes in the way individuals and groups interact, in how businesses are run, and have significantly reduced economic activities. During the pandemic, Residential electricity usage has surged as people stay home and many businesses have their workers work remotely from home. However, the Commercial and Industrial customers' use of electricity has dived due to these same usage changes.

According to Energy Information Administration (EIA) state-level and sector-specific data on energy sales,[5] total energy consumption across the U.S. dropped 4 percent in 2020 compared to 2019. And, while residential energy usage increased by roughly 2 percent, commercial and industrial consumption declined by 6 percent and 8 percent, respectively. In particular, the electricity usage of the industrial sector is most severely impacted by the COVID-19 pandemic. Nationwide industrial power usage in 2020 was very close to repeating the sector's 20-year low and 22 U.S. States have seen drops in industrial energy consumption in 2020 from 2019 of more than 10 percent. As shown in Table-1 provided above, electricity sales in SWEPCO's Texas retail service area between 2019 and 2020 follow this same pattern. SWEPCO's total Texas Retail electricity sales dropped 3.2 percent in 2020, while Residential electricity sales increased by 3.3 percent,

[5] https://www.commercialcafe.com/blog/us-energy-consumption-2020/#2020vs2019

and Commercial and Industrial consumption reduced by 5.0 percent and 6.9 percent, respectively.

Q. Please describe how the COVID-19 pandemic has changed electricity sales throughout 2020 for Residential, Commercial, and Industrial customers.

A. Table-2 below shows the monthly electricity sales percentage changes in 2020 from 2019 for Residential, Commercial, and Industrial customers[6]:

Table 2. Normalized Monthly kWh Sale change in 2020 compared to 2019			
	Res.	Com.	Ind.
Jan	1.2%	-3.5%	-7.1%
Feb	0.0%	-2.9%	4.0%
March	0.6%	-3.5%	4.7%
Apr	-0.9%	-11.6%	3.2%
May	10.5%	-13.5%	-25.2%
June	5.3%	-7.9%	-14.4%
July	1.5%	-5.1%	-15.2%
August	6.7%	0.3%	-15.6%
Sept	7.0%	-2.1%	-11.7%
Oct	2.0%	-5.1%	8.5%
Nov	3.7%	-3.9%	-7.1%
Dec	1.6%	-3.7%	-4.1%

As shown in Table-2, in May 2020, the percentage increases in Residential customers' electricity usage compared to 2019 peaked at 11 percent in May. For Commercial customers, the percentage decreases in their 2020 electricity usage as compared to 2019 peaked at about 14 percent, also in May. Compared to 2019, Industrial electricity usage declined by the largest percentage decrease (25%) in May 2020. As of the end of 2020, Commercial and Industrial customers still see an approximate 4 percent decrease in their electricity usage.

[6] Data Source: SWEPCO's response to RFI Question No. ESTWD 3-1(c).

Q. What are the implications for SWEPCO rate class cost allocation if SWEPCO makes no pro-forma adjustments to the test year billing determinants to reflect COVID-19's effect?

A. If no pro-forma adjustments to reflect COVID-19 pandemic impact are made to the test year load and customer information, the rate classes experiencing significant energy usage reduction (*i.e.*, Commercial and Industrial) could be assigned more costs than they should be. In other words, the costs assigned to these rate classes could be overstated. On the other hand, some rate classes' costs would be understated (*i.e.*, Residential). The COVID-19 pandemic has dramatically changed customers' electricity usage patterns. Without incorporating all known and measurable adjustments related to the impact of the COVID-19, SWEPCO's cost allocation study results do not reasonably represent the costs to serve each rate class. Rates are designed to reflect the usage of customers at the time the rates go into effect, which is why the law allows for known and measurable adjustments to test year data.

Q. Has SWEPCO made adequate adjustments to its test year load and customer data to reflect COVID-19 pandemic impact?

A. No, it has not because adjusting only for three industrial customers (one industrial customer in Texas Retail service area) does not reflect the broader impact across all customer classes. As discussed in detail earlier in this testimony, according to the data collected by SWEPCO, the COVID-19 pandemic has caused SWEPCO's Texas Retail overall electricity sales to drop by 3.2 percent in 2020, increased Residential electricity sales by 3.3 percent, and reduced Commercial and Industrial electricity consumption by 5.0 percent and 6.9 percent, respectively. To fairly and reasonably represent this actual usage pattern

among rate classes, SWEPCO's cost allocation study should be revised to include all known and measurable adjustments related to COVID-19 pandemic impacts, not just for three large industrial customers, of which only one is in Texas.

Q. What is your recommendation regarding pro-forma adjustments related to COVID-19?

A. I recommend that SWEPCO's rate class cost allocation studies and underlying load information should be updated to include all of the known and measurable pro-forma adjustments related to COVID-19 pandemic impacts, including the changes to electricity usage. Without including all known and measurable adjustments related to COVID-19 pandemic impacts, SWEPCO's cost allocation study results are not accurate and should not be used to determine future rates for SWEPCO's Texas Retail customers.

While SWEPCO claimed that it was not able to measure the impact at the time of the filing, it has demonstrated now that it is capable of identifying and measuring the usage changes caused by the COVID-19 pandemic. In its response to RFI Question No. ETSWD 3-1(c) (attached as Attachment KP-3), SWEPCO has provided the data of measurable changes in electricity sales by rate class since the pandemic began. SWEPCO should identify and measure all of the changes caused by the COVID-19 pandemic and incorporate them into an updated cost allocation study.

Q. Do you have other recommendations regarding pro-forma adjustments to the test year load data to reflect COVID-19 pandemic impact?

A. Yes, I have two more recommendations regarding pro-forma adjustments to SWEPCO's test year load data. In its response to RFI Question No. ETSWD 3-2, SWEPCO identified the loss of load for a commercial customer and an industrial customer due to business

closure after the end of the test year. I recommend that SWEPCO include a pro-forma adjustment to reflect the loss of load for these two customers when it revises its rate class cost allocation study.

In addition, I recommend that SWEPCO correct an error that occurred when making pro-forma adjustments to reflect the loss of the three industrial customers in its cost of service allocation study. In preparing its response to RFI Question No. ETSWD 2-2 (attached as Attachment KP-5), SWEPCO found that the customer adjustments for the loss of the three industrial customers were excluded from the calculation of the jurisdictional production and transmission demand allocation factors. SWEPCO indicates in the response that it will correct the error in SWEPCO's cost of service allocation study when it files rebuttal testimony.

V. RATE SHOCK AND RATE CLASS BASE RATE REVENUE REQUIREMENT DISTRIBUTION

Q. What are customer class base rate revenue assignments?

A. Customer class base rate revenues are the revenue levels that base rates are designed to recover from each rate class. The customer class base rate revenue assignment is the process by which the class base rate revenues are determined for each class.

Q. Why not use the results of the class cost allocation study at an equalized rate of return ("ROR") as the class revenue assignments?

A. Ideally, the results of a class cost allocation study at an equalized ROR should be adopted to assure that each rate class bears only its own share of targeted revenues.[7] In the absence of designing "unity" rates, SWEPCO should still try and mitigate the impact of its proposed

[7] An equalized ROR cost allocation study produces cost results which reflect the same rate of return for all of the rate classes.

increase to minimize disparate impact on individual rate classes. Accepting the class cost allocation study result as proposed could produce significant negative impacts on some classes. In many cases, these significant impacts result in rate shock to the customers in these classes. Therefore, an adjustment to moderate the results of a class cost of service study may be required when assigning base rate revenue to different classes.

In most of the rate cases for the bundled utilities determined by the Commission, rate impact and rate shock are a primary concern, along with setting rates as close to actual cost as possible.

Q. How does SWEPCO propose to mitigate the effects of customer rate shock?

A. In part, SWEPCO proposes to use a rate moderation method that requires grouping rate classes into several major rate class groups. For certain major rate class groups, SWEPCO applied rate moderation adjustments among the rate classes within the group so that the total base rate revenue increase for the group remains the same as that resulting from the equalized ROR cost allocation study. In its proposed method, SWEPCO first combines its nineteen rate classes into four groups: Residential, Commercial and Industrial, Municipal, and Lighting. Within the Commercial and Industrial group, SWEPCO assigned each class in the same group the same percentage increase as the overall increase for the entire group. Each class in the Municipal group was also assigned the same percentage increase as the overall increase for the entire Municipal group. The goal of SWEPCO's proposed rate moderation method is first to focus on moving all class groups to cost, then to move each class within the group to cost on a more moderate time table.

Q. Please compare the percentage changes between SWEPCO's equalized ROR class cost allocation study results and its proposed class base rate revenue requirements?

A. The following table shows a comparison of the percentage changes between SWEPCO's equalized ROR class cost allocation study results and its proposed class base rate revenue requirements:

Table 3
Class Base Rate Revenue requirement Percentage Changes

Rate Class	Present Relative ROR (1)	Unity cost Cost Percent Change (2)	Proposed Base Percent Change (3)	Prposeed Relative ROR (4)
RESIDENTIAL	***1.06***	***27.93%***	***27.93%***	***1.00***
GENERAL SERVICE W/DEM	1.24	22.87%	32.98%	1.14
GENERAL SERVICE WO/DEM	0.66	39.64%	32.98%	1.04
LIGHTING & POWER SEC	0.83	36.34%	32 98%	0.94
LIGHTING & POWER PRI	1.47	16.67%	32.98%	1.33
COTTON GIN	(0 50)	91.89%	32 98%	0 22
LARGE LIGHTING & POWER PRI	1.02	30.02%	32.98%	1.05
LARGE LIGHTING & POWER TRAN	0 84	40.86%	32 98%	0.88
METAL MELTING - SEC	0 66	37.01%	32.98%	0 92
METAL MELTING - PRI	0.67	37.53%	32.98%	0 92
METAL MELTING - TRANS	1.94	5.43%	32.98%	1.65
OILFIELD PRIMARY	0.86	34.25%	32.98%	0.98
OILFIELD SECONDARY	(0 15)	86.26%	32.98%	0.34
TOTAL COMMERCIAL & INDUSTRIAL	***0.93***	***32.98%***	***32.98%***	***1.00***
MUNICIPAL PUMPING	1.41	17.59%	13.49%	0 91
MUNICIPAL SERVICE	2.32	-1.66%	13.49%	1.38
MUNICIPAL LIGHTING	1.44	17.54%	13 49%	0.92
PUBLIC STREET & HWY	(1.50)	227.23%	13.49%	(0 57)
TOTAL MUNICIPAL	***1.58***	***13.49%***	***13.49%***	***1.00***
PRIVATE, OUTDOOR, AREA	1.38	18.12%	18.12%	1.00
CUST-OWNED LIGHTING	0.65	37.76%	37.76%	1.00
TOTAL LIGHTING	***1.33***	***19.41%***	***19.41%***	***1.00***
TOTAL FIRM RETAIL	**1.00**	**30.31%**	**30.31%**	**1.00**

Q. Do you agree with SWEPCO that rate moderation is necessary in this case?

A. Yes, I agree with SWEPCO that an application of rate moderation is necessary in this case because the costs allocated to the rate classes resulting from SWEPCO's class cost allocation study create large rate increase for a number of rate classes and would force a number of rate classes to experience rate shock.

In addition, SWEPCO's equalized ROR cost allocation study creates disproportional rate impacts among rate classes. As shown in Column (2) in Table-3, class base rate percentage changes range from a 1.66 percent decrease to a 277 percent increase. Therefore, I believe that rate moderation adjustments are warranted to be applied to the results of SWEPCO cost allocation study to arrive at reasonable base rate revenue increases for the rate classes.

Q. Do you agree in principle with SWEPCO's proposal to group rate classes as a way to move towards an equalized return?

A. Yes, I agree with SWEPCO's rate moderation adjustment proposal to the extent that it reasonably accomplishes the goal of ultimately moving all rate classes to cost. As shown in Table-3 in Columns (1) and (4), SWEPCO's rate moderation proposal would result in all of the major rate groups paying their equalized ROR cost, which moves rate classes closer to the goal of actual cost-based rates.

Q. Do you have other reasons to support adjustments to SWEPCO's proposed equalized ROR class cost allocation study results?

A. Yes, I am concerned that SWEPCO's proposed rate class cost allocation study should not be relied upon to determine the rates for customers because it does not reflect the actual usage changes caused by the COVID-19 pandemic and therefore does not present results

that accurately reflect the true costs to serve. As discussed in detail earlier in this testimony, SWEPCO should revise its rate class cost allocation study to reflect all of the known and measurable adjustments to account for COVID-19 pandemic impacts. However, if a full revision of the rate class cost allocation cannot be accomplished, some form of rate adjustment , such as SWEPCO's proposed rate moderation, must be used to account for the COVID-19 pandemic impact.

Q. Do you have other concerns regarding rate shock SWEPCO's customers would be experiencing?

A. Yes, I am concerned that rate shock would deepen the economic insecurity SWEPCO customers, including ETSWD, are currently experiencing. Especially when combined with SWEPCO's rate increases from only a few years ago, the proposed rate increase would create a significant increase in the burden of utility bills on businesses in East Texas. Recent examples of business closures, including the U.S. Steel plant identified by SWEPCO, illustrate the sensitivity of businesses in the SWEPCO service territory to economic challenges. This is true for ETSWD as well. As proposed, SWEPCO's rates for ETSWD would increase by more than 70 percent from 2017 to today.

Q. Has the Commission previously adopted any form of rate moderation adjustments in establishing base rate class revenue requirements?

A. Yes, as recently as in SWEPCO's last two rate cases in Docket No. 40443 and Docket No. 46449, the Commission approved rate moderation adjustments when determining class base rate revenue requirements.

VI. RETAIL CHOICE IN SWEPCO'S TERRITORY

Q. Does SWEPCO currently have retail choice in its territory?

A. No. Although SWEPCO has historically had a retail choice pilot project tariff on file, it has never enrolled a customer in that pilot project.

Q. Has ETWSD requested that SWEPCO initiate this pilot project?

A. Yes. But SWEPCO has repeatedly refused to do so despite the existing tariff.

Q. Has ETSWD taken any other efforts to have a retail choice pilot project in SWEPCO's territory?

A. Yes. On September 8, 2020, ETSWD filed a petition for a declaratory order, docketed as PUC Docket No. 51257, asking the Commission to clarify whether current law and SWEPCO tariffs require that SWEPCO provide a retail pilot project and seeking a new project to determine and implement the technical steps necessary to provide for the pilot project.

Q. Do you believe that such a pilot project would make sense?

A. Yes. I am not a lawyer so I take no position with respect to what the law does or does not require, but I believe that a pilot project could inform the Commission about the reasonableness of SWEPCO's rates and about ways to promote the interests of customers in the SWEPCO service territory in Texas. Specifically, the pilot can provide information about the rates that might be charged by a third party to provide retail service on the same distribution and transmission facilities as SWEPCO uses. This information may be particularly important in light of the broader economic pressures that Commercial and Industrial customers currently are encountering. For instance, three of SWEPCO's large industrial customers have closed operations, and SWEPCO has discovered more business closures. The current economic pressures SWEPCO customers face argue not only for

new approaches to cost allocation and rate design, but also for a comparison to retail choice through a pilot. But I do not think that there is enough information today to make a decision about the merits of full retail competition. Accordingly, I think a pilot project makes sense as a tool for the Commission to obtain information on whether sufficient demand exists to entertain the idea. The pilot also can help inform the Commission in subsequent SWEPCO rate cases as it can compare the rates available from third parties to the rates proposed by SWEPCO.

VII. RECOVERY OF SPP OATT TRANSMISSION COST

Q. What does SWEPCO propose regarding its transmission cost recovery from Texas retail customers?

A. SWEPCO proposes a cost deferral and recovery mechanism to recover its ongoing SPP OATT costs *after* its base rates are set in this rate case. SWEPCO proposes to create a regulatory deferral asset or liability account to reflect the over- or under-recoveries of its ongoing SPP OATT charges over the net Test Year SPP OATT charges (approved in this rate case). Under the proposal, the asset or liability would accrue for the period from the effective date of the final rates in this rate case until the earlier of its next TCRF case or base rate case. SWEPCO also proposes that the amounts reflected in the proposed regulatory deferral asset or liability account to be allowed for recovery through its next TCRF or its base rate case.

Q. Please explain what SPP OATT costs are.

A. SWEPCO is a part of the SPP transmission grid and owns a portion of the SPP transmission system. Based on the Federal Electricity Regulatory Commission ("FERC")-approved SPP OATT, SWEPCO is charged by SPP for the use of other SPP transmission owners'

facilities but also receives payment from SPP for SPP members' use of SWEPCO's transmission facilities. The charges by SWEPCO to SPP and the payments by SPP to SWEPCO incurred during the test year are included in SWEPCO's requested cost of service in this proceeding. In the cost accounting for SWEPCO's cost of service, the SPP OATT charges are included in the study as an operating and maintain ("O&M") expense in FERC Accounts 561, 565, and 575. The payments by SPP to SWEPCO for the test year are included in SWEPCO's cost of service as a revenue credit recorded in FERC Account 456. As a result, the SPP OATT net cost (the charges by SWEPCO to SPP minus the payments by SPP to SWEPCO) for which customers are responsible is reflected in SWEPCO's cost of service and is the targeted cost that SWEPCO wants to use its proposed deferral and recovery mechanism to recover.

Q. What is the implication of SWEPCO's proposed deferral and recovery mechanism for its SPP OATT net cost?

A. SWEPCO's proposed deferral and recovery mechanism for its SPP OATT, net cost would allow it to continuously recover its on-going SPS OATT expenses outside of a rate change case seemingly without Commission review unless and until SWEPCO files a TCRF case or a rate case.

Q. Do you agree with SWEPCO's proposal?

A. No, I believe SWEPCO's proposal should not be adopted by the Commission. I believe that SWEPCO's proposal is not appropriate for the following reasons:

1. The proposed SPP OATT net cost deferral and recovery mechanism is a form of retroactive ratemaking. It constitutes a pass-through cost recovery and as a result allows for a guaranteed dollar-for-dollar recovery.

2. The proposed SPP OATT net cost deferral and recovery mechanism does not comply with 16 Texas Administrative Code ("TAC") § 25.239.

Q. Please explain why SWEPCO's proposed ongoing SPP OATT net cost deferral and recovery mechanism is a form of retroactive ratemaking.

A. This is a form of retroactive ratemaking because it allows SWEPCO to retroactively recover past expenses that are not within a historic test year used by the Commission for setting rates.

Q. Is SWEPCO's proposal that retroactively recovers SPP OATT past net cost consistent with traditional ratemaking?

A. No, because the proposed retroactive recovery of SPP OATT's past net cost provides for a guaranteed dollar-for-dollar recovery. The fundamental objective of the traditional ratemaking process for an electric utility as set forth in the Public Utility Regulatory Act ("PURA") is to provide the utility an opportunity to earn a reasonable return, as stated in Section 36.051, not a guaranteed dollar-for-dollar recovery.

Q. Please explain more about the traditional ratemaking process.

A. SWEPCO operates as a non-competitive monopoly in its service area, subject to regulation by the Commission. PURA requires that rates for such utilities be set through a test-year based cost of service in a rate case proceeding subject to known and measurable adjusments. Subchapter B of Chapter 36 of PURA establishes the basis for setting rates in Texas. PURA Section 36.051 states:

> In establishing an electric utility's rates, the regulatory authority shall establish the utility's overall revenues at an amount that will permit the utility a reasonable opportunity to earn a reasonable return on the utility's invested capital used and useful in providing service to the public in excess of the utility's reasonable and necessary operating expenses.

In every rate case where an electric utility's rates are set, traditional ratemaking methodology establishes the utility's overall revenues and includes review of many cost items, not just isolated costs. PURA Sections 36.052 through 36.068 detail how many of these cost items should be identified and reviewed. This process allows the Commission to examine an electric utility's revenues, investments, and expenses over a specific test year as representative of its operations. Through the process, the Commission also takes into consideration the impact of load growth on the utility's revenues and expenses. Once rates are approved, they remain the same until the next rate case or statutorily-proscribed interim adjustment proceeding.

Basic rate making principles prohibit utilities from automatically passing through or adjusting individual cost items (unless otherwise allowed) in between rate cases. This provides a utility with incentives to reduce its cost of service in between rate cases in order to maximize its profits. Because the rates are set based on a cost of service comprised of all of a utility's related reasonable and necessary cost items, a utility can prudently incur costs or reduce its expenses to allow it to reap a higher profit in between rate cases. Therefore, the fundamental objective of setting rates in the traditional manner is to provide the utility an opportunity to earn a reasonable return over and above its reasonable expenses, not to provide guaranteed dollar-for-dollar recovery of the Company's cost of service.

Q. Is SWEPCO allowed to reset its SPP OATT cost recovery in between rate cases?

A. Yes, SWEPCO can reset its SPP OATT cost recovery in a TCRF case. The TCRF is an interim measure between rate cases that allows SWEPCO, among other things, to recover the difference between the SPP OATT net cost approved in its last rate case and the SPP

OATT net cost at the time the TCRF becomes effective. The determination of the TCRF is based on the costs actually incurred during a historical test year, adjusted for known and measurable adjustments demonstrated at the time of the TCRF proceeding. SWECPO can file for a TCRF as often as once a year.

Q. Is it appropriate for SWEPCO to recover retroactively the true-ups of the actual SPP OATT net cost and that were included in the base rates in a TCRF?

A. No, because a TCRF is established to recover reasonable SPP OATT costs for future rates, not to recapture the past true-ups between the actual SPP OATT net cost and what was included in SWEPCO's current base rates. In addition, the Commission's TCRF rule specifically prevents this type of true-up. 16 TAC § 25.239 (f) states

> ".....In a docket in which the TCRF is reviewed or amended, the commission may order the refund of any previous over-recovery, but the commission shall not order the surcharge of any under-recovery. An over-recovery shall be considered to have occurred if the revenues from the TCRF were greater than the costs that the TCRF was intended to recover."

Thus, the TCRF rule specifically prohibits any under-recoveries of TCRF costs. While it provides for true-ups and refunds of over-collected TCRF revenues, the TCRF rule does not allow truing-up of actual SPP OATT net costs previously incurred.

Q. What do you recommend regarding SWEPCO's SPP OATT net cost deferral and recovery mechanism?

A. SWEPCO's proposed SPP OATT net cost deferral and recovery mechanism should be rejected because it constitutes retroactive ratemaking and provides for a guaranteed dollar-for-dollar recovery, which deviates from the objective of traditional ratemaking. In addition, the Commission's TCRF rule specifically prohibits any under-recoveries of TCRF costs, including the recovery of the under-recoveries of the SPP OATT net cost that

would be allowed in SWEPCO's proposed SPP OATT net cost deferral and recovery mechanism.

VIII. CONCLUSION

Q. Does this conclude your direct testimony?

A. Yes.

AFFIDAVIT

STATE OF TEXAS §
§
COUNTY OF TRAVIS §

BEFORE ME, the undersigned authority, on this day personally appeared Kit Pevoto, who, having been placed under oath by me, did depose as follows:

My name is Kit Pevoto. I am of legal age and a resident of the State of Texas. The foregoing direct testimony and the attached exhibits offered by me are true and correct, and the opinions stated therein are, to the best of my knowledge and belief, accurate, true and correct.

Kit Pevoto

SUBSCRIBED AND SWORN TO BEFORE ME by the said Kit Pevoto this 31 day of March 2021.

KEVIN S EASTIN
Notary ID #131803155
My Commission Expires
November 20, 2022

Notary Public, State of Texas

KP-1

Resume and Expert Experneice of Kit Pevoto

Kit Pevoto
Independent Consultant
512-796-6707
Email: kpevoto@austin.rr.com

EDUCATION:

University of Texas at Arlington, Arlington, Texas

M.S. in Electrical Engineering, May 1991
Concentration: Power System Analysis
Thesis Title: The Dynamic Stability Analysis of a Power System with Static Var System Using the Eigenvalue Method

National Taiwan University, Taiwan

B.S. in Electrical Engineering, June 1983

EXPERIENCE

Career Summary:

Ms. Pevoto has been working in Texas electric regulatory industry for more than 25 years. She previously worked at Public Utility Commission of Texas for twelve years and has been an independent consultant for the last 19 years. She is a recognized cost allocation and rate design expert in the industry. Ms. Pevoto has a strong knowledge of the cost of service, cost unbundling, cost allocation for electricity utilities and rate design/pricing issues for different aspects of the electricity prices. In addition to her expertise knowledge and experience, her creative and innovative approaches toward finding solutions for issues have allowed her numerous opportunities to get deeply involved and contributed greatly in developing the groundbreaking activities, projects, and rulemakings that led to deregulation at both wholesale and retail level in Texas. Most importantly, her work has helped Texas ratepayers and her clients save millions of dollars on their electricity bills. Ms. Pevoto also represented clients as an expert witness in natural gas utilities rate cases in Texas.

Independent Consultant, July 2001 to Present

Summary: Performs information research for clients. Performs policy and economic analyses for clients and participates on behalf of clients before the Texas Public Utility Commission (PUCT) in various rulemaking projects, tariff, and rate cases. Files and defends testimony in contested tariff and rate cases before PUCT.

Highlights:

- In the summer of 2008, Ms. Pevoto testified before the Commissioners in the Competitive Renewable Energy Zone docket on the determination of transmission expansion plan to accommodate more renewable power into the ERCOT grid, on behalf of a renewable power supplier client. The Commission relied on the cost-benefit analyses developed by Ms. Pevoto and eventually adopted the transmission expansion plan-a 4.9 billion transmission expansion in west Texas to allow more wind power moving from the west to other parts of Texas as recommended by Ms. Pevoto. Today, this transmission expansion plan is complete and last year (2019), ERCOT just reached a milestone-the wind power

production outpaces the coal generation in the first half of the year. The transmission expansion Ms. Pevoto recommended allowed this to happen.

- On behalf of various clients, including city governments, state agencies, state universities, state hospitals, private electricity consumers, and retail electric providers, Ms. Pevoto has participated in over forty cases before the Public Utility Commission of Texas and Texas Railroad Commission. The forty cases include the rate increase cases for the two largest ERCOT TD utilities (Oncor and CenterPoint), the Oncor buyout case, and the Oncor/Sharyland acquisition case. In her participation in all of these cases, Ms. Pevoto has helped her clients save millions of dollars on their electricity spending. In Docket No. 34800, Ms. Pevoto evaluated a Competitive Generation Service that allowed customers to purchase generation power from sources other than the incumbent utility (Entergy Texas).
- Ms. Pevoto participated in several significant rulemaking projects affecting utilities cost recoveries. These projects affect the cost recoveries for the distribution facilities investments and purchase power costs. One of the projects was to set up the rules and pricing for the Provider of Last Resort Services in ERCOT.
- Ms. Pevoto provides services to help clients to monitor and maintain a database for most updated retail transmission and distribution rates in ERCOT.

Chief Rate Analyst, November 1999 to May 2001
Assistant Director, April 1997-November 1999
Public Utility Commission of Texas (PUC), Austin, Texas

Summary: Participated in the development of rules to implement Texas Deregulation Bill (Senate Bill 7). Leader of a team to work on the development of rules governing the separation of the competitive energy services from the integrated IOUs, the separation of the integrated IOUs into several business units, and the cost separation for the development of the non-bypassable charges. Filed and defended testimony in contested cases (including cost unbundling cases) on: jurisdictional and Texas retail class cost allocation, cost and rate unbundling, rate design, pricing in an increasingly competitive electric industry, transmission cost of service. Supervised new and junior staff. Supervised new and junior staff. Provided training to staff on cost allocation and rate design.

Highlights:

- In the summer of 1999, shortly after the Texas Legislature passed Senate Bill 7, Ms. Pevoto led a team that developed rules governing the separation of competitive energy services from the integrated IOUs, the separation of the integrated IOUs into several business units, and the cost separation for the development of the non-bypassable charges. This project was part of the PUCT's implementation of the Senate Bill 7 provisions related to business separation and development of non-bypassable charges including the unbundled transmission and distribution service charges.
- Ms. Pevoto testified, in the spring of 2000, in Texas IOUs' first cost unbundling cases, before the Commission as an expert witness on cost allocation and rate design regarding the determination of transmission and distribution charges to be applied in these unbundling cases. The Commission adopted her recommendations a simplified and uniform rate design for the transmission and distribution rates for all IOUs with very minor modifications. In particular, the retail transmission cost recovery rate design recommended

by Ms. Pevoto has encouraged and allowed significant investments and improvement in ERCOT's transmission system.

- Ms. Pevoto also made significant contributions in other rulemaking projects involving the implementation of Senate Bill 7, such as the tariff Terms and Conditions for Transmission and Distribution Services and the Price to Beat.
- During the 1999 Legislative Session, Ms. Pevoto was actively involved in developing information and data for the Legislature to review while it was developing Senate Bill 7. She was also involved in the negotiations among parties regarding allocation of stranded costs among customers.
- Ms. Pevoto initiated a project to separate the costs of nine IOUs in Texas into generation, transmission, distribution, metering & billing, and customer services categories. Ms. Pevoto and her staff collected data, developed guidelines and procedures for separating costs, and implemented the cost separation for the nine IOUs. The project produced a report containing all of the data collected, the procedure to separate the costs, and most importantly the results of the cost separation for the nine IOUs. The Commission used the unbundled cost information resulting from this project in assisting the Texas Legislature to develop the electric deregulation bill (Senate Bill 7) in the 1999 legislation.

Senior Rate Analyst, January 1994-March 1997
Public Utility Commission of Texas (PUC), Austin, Texas

- Key staff in the development of the transmission open access rules for Texas, which established the policy for the open access of Texas's ERCOT transmission system, the rate for the usage of the transmission system. The post stamp transmission pricing scheme included in the rules allows generation developers to build anywhere in ERCOT and connect to the statewide transmission system but still pay the same wholesale transmission service rate. This pricing scheme provides the necessary foundation for the wind power potential in West Texas to be realized. Since then, the wind generation developed in west Texas has been exceedingly successful.
- Developed complex cost of service studies and analyzed rate design issues in major electric investor-owned utility rate proceedings. Testified as key expert witness on cost of service studies and rate design issues. Supervised new and junior staff.

Rate Analyst, September 1990-December 1993
Public Utility Commission of Texas, Austin, Texas
Analyzed cost of service study and rate design issues presented in electric utility rate proceedings. Testified as expert witness on above issues. Reviewed compliance and administrative tariff applications filed by regulated electric utilities. Supervised new and junior staff.

Utility Specialist, June 1989-August 1990
Public Utility Commission of Texas, Austin, Texas
Implemented load flow models and developed transmission line database for the project "Optimal State Electricity Supply in Texas," funded by the Oil Overcharge Settlement Funds. Evaluated model results, wrote the project reports and assisted in presenting the results to other agencies and utilities.

Research Assistant, June 1988-May 1989
University of Texas at Arlington, Arlington, Texas
The Energy Systems Research Center (ESRC)
Assisted in the research of the installation of the Static Var System in a power system and in the demonstration of the effects of the Static Var System in the Power System Simulation Laboratory at the ESRC.

Software Engineer, November 1983-July 1987
Grace Baptist Church, Taipei, Taiwan
Set up and executed the office automation system, and developed the personnel information management and the financial management systems for the church office.

Software Engineer, September 1983-November 1983
5 Plus 2 Information Inc. Taipei, Taiwan
Developed commercialized management information systems for businesses and offices.

Kit Pevoto			
Rate Case Experience			
Docket	**Utility Name**		**Issues Addressed**
Before the Public Utility Commission			
9892	Denton County Electric Cooperative		Cost Allocation and Rate Design
10266	Sam Houston Electric Cooperative		Cost Allocation and Rate Design
10561	Jackson Electric Cooperative		Cost Allocation and Rate Design
10820	Magic Valley Electric Cooperative		Service Rules and Regulations
11011	Southwestern Public Service		Fuel Reconciliation
11347	Johnson County Electric Cooperative		Cost Allocation and Rate Design
11567	Kaufman County Electric Cooperative		Service Rules and Regulations
11571	Fayette Electric Cooperative		Cost Allocation and Rate Design
11650	Navasota Valley Electric Cooperative		Cost Allocation and Rate Design
11735	Texas Utilities Electric Company		Cost of Service Study
11999	Houston Lighting and Power Company		Economic Incentive Rate
12700	El Paso Electric Company		Cost of Service Study
12820	Central Power and Light Company		Cost Allocation and Rate Design
13109	Magic Valley Electric Cooperative		Time of Use Rate
14965	Central Power and Light Company		Rate Design
15296	Texas Municipal Power Agency		Transmission Rates
16705	Entergy Gulf States		Cost Allocation
22344	UCOS cases for all IOUs		Rate Design for Unbundled T&D rates
22351	Southwestern Public Service Company		T&D Rate Design
22352	Central Power and Light Company		T&D Rate Design
22353	Southwestern Electric Power Company		T&D Rate Design
22354	West Texas Utilities Company		T&D Rate Design
22355	Reliant Energy HL&P		T&D Rate Design
22356	Entergy Gulf States		T&D Rate Design
28556	Texas-New Mexico Power Company		Design of Competitive Metering Credits
28559	AEP Texas Central Company		Design of Competitive Metering Credits
28560	AEP Texas North Company		Design of Competitive Metering Credits
28562	CenterPoint Energy Houston		Design of Competitive Metering Credits

	Electric		
28563	Oncor Electric Delivery Company		Design of Competitive Metering Credits
28813	Cap Rock Energy Corporation		Cost Allocation and Rate Design
28840	AEP-Texas Central Company		Cost Allocation and Rate Design
30485	CenterPoint Energy Houston Electric		Cost Allocation and Rate Design for TC
30706	CenterPoint Energy Houston Electric		Cost Allocation and Rate Design For CTC
32766	Southwestern Public Service Company		Cost allocation and Rate Design
33734	Electric Transmission Texas, LLC		Certificate of Convenience and Necessity Application
34800	Entergy Gulf States		Cost Allocation and Rate Design
33672	Competitive Renewable Energy Zones Docket		Selection of transmission expansion plans
35717	Oncor Electric Delivery Company		Cost Allocation and Rate Design
35763	Southwestern Public Service Company		Cost Allocation and Rate Design
36025	Texas-New Mexico Power Co.		Cost Allocation and Rate Design
37364	Southwestern Electric Power Company		Cost Allocation and Rate Design
37482	Entergy Texas, Inc.		Purchased Power Capacity Cost Recovery
39690	El Paso Electric Company		Cost Allocation and Rate Design
37744	Entergy Texas, Inc.		Cost Allocation and Rate Design
38147	Southwestern Public Service Company		Cost Allocation and Rate Design
38480	Texas-New Mexico Power Co.		Cost Allocation and Rate Design
38929	Oncor Electric Delivery Company		Cost Allocation and Rate Design
39286	Entergy Texas, Inc.		Cost Allocation and Rate Design
40094	El Paso Electric Company		Cost Allocation and Rate Design
40824	Southwestern Public Service Company		Cost Allocation and Rate Design
41791 .	Entergy, Texas, Inc.		Cost Allocation and Rate Design
42004	Southwestern Public Service Company		Cost Allocation and, Rate Design
43111	Entergy Texas, Inc.		Distribution Cost Recovery Factor
43695	Southwestern Public Service Company		Cost Allocation and, Rate Design
44572	CenterPoint Energy		Distribution Cost Recovery Factor
45083	Entergy Texas, Inc.		Distribution Cost Recovery Factor
44491	El Paso Electric Company		Cost Allocation and Rate Design
45524	Southwestern Public Service Company		Cost Allocation and, Rate Design
45414	Sharyland Utilities		Cost Allocation and, Rate Design

46449	Southwestern Electric Power Company		Cost Allocation and, Rate Design
46831	El Paso Electric Company		Cost Allocation and Rate Design
46957	Oncor Electric Delivery Company		Cost Allocation and Rate Design
48233	Southwestern Electric Power Company		Cost Allocation and Rate Design
48325	Oncor Electric Delivery Company		Cost Allocation and Rate Design
49421	CenterPoint Energy Houston Electric		Cost Allocation and Rate Design
Before the Railroad Commission of Texas			
9672	Atmos Energy Corp		Cost Allocation and Rate Design
10567	CenterPoint Energy Resourse		Cost Allocation and Rate Design
Rulemaking			
P14045	Transmission Open Access		
P21803	Cost Unbundling and Separation of Utility Business Activities, Including Separation of Competitive Energy Services and Distribution Generation		
P21409	Price to Beat		
P22187	Rulemaking to Establish Terms and Conditions of Transmission and Distribution Utilities' Retail Distribution Service		
P26418	Rulemaking to address Competitive Energy Services		
P31416	Rulemaking to address Price To Beat and Provider Of Last Resource rules		
P38298	Rulemaking to Address Recovery by Electric Utilities of Distribution Costs		
P39465	Rulemaking to Address Periodic Rate Adjustments		
P39246	Rulemaking to Address Recovery of Purchased Power Capacity Costs		

KP-2

SWEPCO Response to ETSWD 2-4

SOAH DOCKET NO. 473-21-0538
PUC DOCKET NO. 51415

SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO EAST TEXAS SALT WATER DISPOSAL COMPANY'S SECOND REQUEST FOR INFORMATION

Question No. ETSWD 2-4:

Referring to pages 9-11 of Mr. Chad M. Burnett's direct testimony:

a. Did SWEPCO make any pro-forma adjustments to the test year customer and loaddata for its Texas retail rate classes to reflect any load impacts from the COVID-19 pandemic?
b. If the answer to (a) is yes, please provide in detail the pro-forma adjustmentsSWEPCO made to the test year load and customer data reflecting the load impactsfrom COVID-19 pandemic by Texas retail rate class.
c. If the answer to (a) is no, please explain why SWEPCO did not make pro-forma adjustments to the test year customer and load data for its Texas retail rate classes to reflect any load impact from COVID-19 pandemic.
d. Please provide all schedules and workpapers supporting the responses (a)-(c).

Response No. ETSWD 2-4:

a. No.
b. n/a
c. The COVID-19 pandemic essentially started during the final 10 days of the test year. The Company did not make a generic adjustment for COVID-19 to the test year load and customer data because at the time, the impact was neither fully known nor measurable. However, the Company did make adjustments for the three customers mentioned on page 10 of Company witness Burnett's direct testimony because those specific customer adjustments were both known and measurable.
d. n/a

Prepared By: Chad M. Burnett Title: Dir Economic Forecasting

Sponsored By: Chad M. Burnett Title: Dir Economic Forecasting

KP-3

SWEPCO Response to ETSWD 3-1

SOAH DOCKET NO. 473-21-0538
PUC DOCKET NO. 51415

SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO EAST TEXAS SALT WATER DISPOSAL COMPANY'S THIRD REQUEST FOR INFORMATION

Question No. ETSWD 3-1:

Referring to SWEPCO's response to ETSWD's 2nd RFIs Question No. 2-4 (c) "The Company did not make a generic adjustment for COVID-19 to the test year load and customer data because at the time, the impact was neither fully known nor measurable," please answer the following:

a. When did SWEPCO determine that the impact of COVID-19 was neither fully known nor measurable? Please provide all documents relevant to this response.
b. What steps has SWEPCO taken to fully know and measure the impacts of COVID-19 since the end of the test year? If no steps have been taken, why not? If yes, what are those impacts and when were those impacts identified? Please provide all documents relevant to this response.
c. What are the known and measurable COVID-19 impacts as of December 31, 2020? Please identify by rate class.
d. Please provide all of the schedules and workpapers supporting the response.

Response No. ETSWD 3-1:

a. To complete the record, the Company's response to ETSWD's Question 2-4 started by saying, "The COVID-19 pandemic essentially started during the final 10 days of the test year. The Company did not make a generic adjustment for COVID-19 to the test year load and customer data because at the time, the impact was neither fully known nor measurable." Since the test year consists of monthly data for the twelve months ending March 2020, and the pandemic only impacted the final 10 days of the month of March 2020, and since the Company does not have full deployment of interval metering for all customer classes (like AMI), the Company was unable to measure the impact of COVID-19 on the test year data. Furthermore, the CARES (Coronavirus Aid, Relief, and Economic Security) Act, a $2.2 Trillion fiscal stimulus package was signed into law by President Trump on March 27, 2020, which was still within the test year, but the impact the stimulus package would have on SWEPCO's sales was unknown at the time of the filing. Since then, two additional fiscal stimulus packages have been passed (the Consolidated Appropriations Act in December 2020 and the American Rescue Plan in March 2021) along with significant monetary stimulus actions (lowering the Federal Funds rate to near zero) by the Federal Reserve Bank to counteract the drag on the economy from COVID-19. That, coupled with the fact that the pandemic has not ended, makes it difficult to fully measure the impact of COVID-19 on SWEPCO's Texas retail sales.
b. The World Health Organization designated that COVID-19 became a pandemic in March of 2020. As of the preparation date of this RFI, it has not designated an end to the pandemic. Nevertheless, the Company does monitor its sales statistics on a monthly

basis and has noticed an overall decline in weather normalized retail sales since the pandemic began.

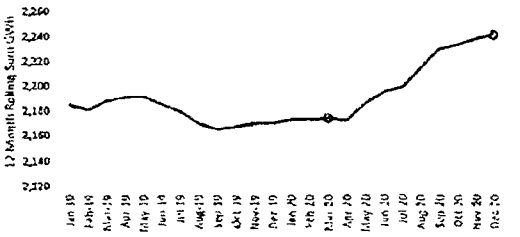
c. See ETSWD 3-1 Attachment 1 for the weather normalized trends by class since the pandemic began. The charts at the top show how SWEPCO-Texas normalized GWh have changed since the end of the test year when the pandemic began. In total, annualized normalized sales are down 3.1%. By class, the increase in Residential sales (+ 3.1%), was more than offset by the decrease in Commercial (-4.3%), Industrial (-6.9%), and Other Retail (-0.7%) sales.

d. See response to part c.

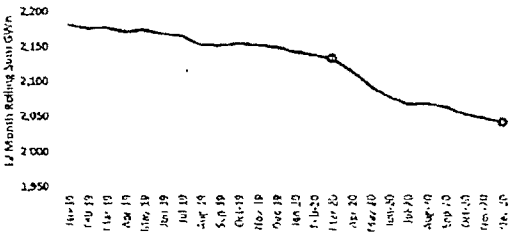
Prepared By: Glenn R. Newman Title: Economic Forecast Anlyst Staff

Sponsored By: Chad M. Burnett Title: Dir Economic Forecasting

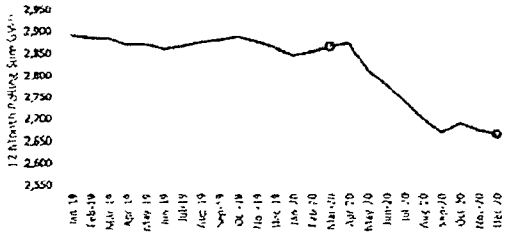
SWEPCO-TX Normalized Residential GWh Trend



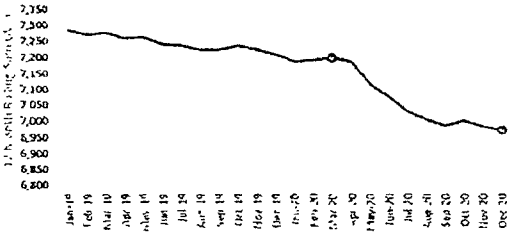
SWEPCO-TX Normalized Commercial GWh Trend



SWEPCO-TX Industrial GWh Trend



SWEPCO-TX Normalized Total Retail GWh Trend



		Residential		Commercial		Industrial		Other Retail		Total	
JURIS	DATE	Normalized kWh	12 Month Rolling Sum kWh	Normalized kWh	12 Month Rolling Sum kWh	Normalized kWh	12 Month Rolling Sum kWh	Normalized kWh	12 Month Rolling Sum kWh	Normalized kWh	12 Month Rolling Sum kWh
SWT	Jan-18	223,697,220		182,747,221		235,607,938		2,302,155		644,354,534	
SWT	Feb-18	190,988,812		163,095,891		225,640,509		2,294,049		582,019,261	
SWT	Mar-18	153,290,949		153,879,641		231,442,653		2,290,368		540,903,611	
SWT	Apr-18	129,187,143		157,206,338		238,772,689		2,288,341		527,454,511	
SWT	May-18	126,812,874		161,522,281		238,326,319		2,284,907		528,946,381	
SWT	Jun-18	185,484,863		196,326,708		255,371,959		2,278,062		639,461,592	
SWT	Jul-18	235,066,476		218,148,339		249,118,362		2,276,138		704,629,315	
SWT	Aug-18	244,482,644		224,747,136		240,967,620		2,277,794		712,475,194	
SWT	Sep-18	222,537,008		217,722,605		243,866,433		2,278,367		686,404,413	
SWT	Oct-18	155,954,431		183,168,695		245,042,482		2,277,355		586,442,963	
SWT	Nov-18	129,327,229		158,213,805		237,922,800		2,278,703		527,742,537	
SWT	Dec-18	183,256,513	2,180,106,162	167,495,074	2,184,273,734	238,250,088	2,880,329,852	2,282,321	27,408,560	591,283,996	7,272,118,308
SWT	Jan-19	228,096,125	2,184,507,067	179,528,148	2,181,054,661	246,221,427	2,890,943,341	2,275,850	27,382,255	656,123,550	7,283,887,324
SWT	Feb-19	187,257,949	2,180,776,203	157,470,752	2,175,429,522	219,561,749	2,884,864,581	2,275,470	27,363,676	566,565,919	7,268,433,982
SWT	Mar-19	160,454,268	2,187,939,522	154,851,012	2,176,400,893	230,654,604	2,884,076,532	2,272,233	27,345,541	548,232,117	7,275,762,488
SWT	Apr-19	131,962,863	2,190,715,242	151,372,006	2,170,566,561	224,181,495	2,869,485,338	2,269,328	27,326,528	509,785,692	7,258,093,669
SWT	May-19	127,580,885	2,191,483,253	164,120,058	2,173,164,338	238,141,762	2,869,300,781	2,266,888	27,308,509	532,109,593	7,261,256,881
SWT	Jun-19	178,877,441	2,184,875,831	190,878,220	2,167,515,850	245,515,975	2,859,444,797	2,263,955	27,294,402	617,335,591	7,239,130,880
SWT	Jul-19	229,528,022	2,179,317,377	214,938,318	2,164,305,829	254,389,320	2,864,715,755	2,264,850	27,283,114	701,120,510	7,235,622,075
SWT	Aug-19	235,020,813	2,169,855,548	212,179,401	2,151,738,094	250,838,997	2,874,587,132	2,264,328	27,269,648	700,303,539	7,223,450,420
SWT	Sep-19	217,903,730	2,165,222,268	216,686,697	2,150,702,186	250,048,139	2,880,768,838	2,264,785	27,256,066	686,903,351	7,223,949,358
SWT	Oct-19	158,054,726	2,167,322,563	185,946,664	2,153,480,155	251,534,582	2,887,260,938	2,265,410	27,244,121	597,801,382	7,235,307,777
SWT	Nov-19	131,717,692	2,169,713,026	155,632,508	2,150,898,858	226,834,798	2,876,172,936	2,265,902	27,231,320	516,450,900	7,224,016,140
SWT	Dec-19	183,469,159	2,169,925,672	164,875,937	2,148,279,721	224,795,887	2,862,718,735	2,269,685	27,218,684	575,410,668	7,208,142,812
SWT	Jan-20	230,933,489	2,172,761,036	173,234,076	2,141,985,649	228,773,990	2,845,271,298	2,269,097	27,211,931	635,210,652	7,187,229,914
SWT	Feb-20	187,185,913	2,172,689,001	152,842,670	2,137,357,567	228,259,699	2,853,969,248	2,251,362	27,187,823	570,539,644	7,191,203,639
SWT	Mar-20	161,339,612	2,173,574,345	149,489,547	2,131,996,102	241,472,121	2,864,786,765	2,249,406	27,164,996	554,550,686	7,197,522,208
SWT	Apr-20	130,761,971	2,172,373,453	133,819,913	2,114,444,009	231,364,058	2,871,969,328	2,247,998	27,143,665	498,193,940	7,185,930,456
SWT	May-20	140,933,506	2,185,726,074	141,886,692	2,092,210,643	178,161,307	2,811,988,873	2,246,600	27,123,378	463,228,105	7,117,048,968
SWT	Jun-20	188,278,291	2,195,126,924	175,681,112	2,077,213,535	210,262,100	2,776,734,998	2,245,100	27,104,523	576,466,603	7,076,179,980
SWT	Jul-20	233,016,328	2,198,615,230	203,885,302	2,066,160,519	215,790,644	2,738,136,322	2,245,250	27,084,923	654,937,524	7,029,996,994
SWT	Aug-20	250,732,045	2,214,326,462	212,687,488	2,066,868,606	211,703,860	2,699,001,185	2,243,962	27,064,557	677,567,355	7,007,260,810
SWT	Sep-20	233,244,549	2,229,667,281	212,230,107	2,062,412,016	220,775,896	2,669,728,942	2,245,851	27,045,623	668,496,403	6,988,853,862
SWT	Oct-20	161,198,315	2,232,810,870	176,467,997	2,052,933,349	272,943,340	2,691,137,700	2,247,059	27,027,272	612,856,711	7,003,909,191
SWT	Nov-20	136,584,354	2,237,677,532	149,514,222	2,046,815,063	210,649,588	2,674,952,490	2,245,793	27,007,163	498,993,957	5,986,452,248
SWT	Dec-20	186,363,567	2,240,571,940	158,839,446	2,040,778,572	215,605,195	2,665,761,798	2,248,146	26,985,624	563,056,354	6,974,097,934
	Change since End of TY		3.1%		-4.3%		-6.9%		-0.7%		-3.1%

KP-4

SWEPCO Response to ETSWD 3-2

SOAH DOCKET NO. 473-21-0538
PUC DOCKET NO. 51415

SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO EAST TEXAS SALT WATER DISPOSAL COMPANY'S THIRD REQUEST FOR INFORMATION

Question No. ETSWD 3-2:

Referring to pages 9-11 of Mr. Chad M. Burnett's direct testimony, please confirm if there was any permanent loss of commercial and industrial customers other than the three industrial customers by the end of 2020. Please provide all of the schedules and workpapers supporting the response.

Response No. ETSWD 3-2:

The Company is not aware of any other large customers (> 1 MW) that have permanently shut down by the end of 2020. There is one Commercial account less than 1 MW that has temporarily idled and one Industrial account that is less than 1 MW that has since announced a plant closure.

Prepared By: Glenn R. Newman Title: Economic Forecast Anlyst Staff

Sponsored By: Chad M. Burnett Title: Dir Economic Forecasting

KP-5

SWEPCO Response to ETSWD 2-2

SOAH DOCKET NO. 473-21-0538
PUC DOCKET NO. 51415

SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO EAST TEXAS SALT WATER DISPOSAL COMPANY'S SECOND REQUEST FOR INFORMATION

Question No. ETSWD 2-2:

Referring to pages 9-11 of Mr. Chad M. Burnett's direct testimony regarding the loss of the three large industrial customers (US Steel, Domtar, and Libbey Glass), please explain in detail the pro-forma adjustments SWEPCO made to the test year load and customer data related to the loss of these three industrial customers. Please provide all schedules and workpapers supporting the response.

Response No. ETSWD 2-2:

On review of the information supporting this response, it was determined that the customer adjustments referenced were inadvertently excluded from the calculation of the jurisdictional production and transmission demand allocation factors. The revised production and transmission demand allocations shown below will be reflected in SWEPCO's rebuttal cost-of-service study. Please see ETSWD 2-2 HIGHLY SENSITIVE Attachment 1 and ETSWD Attachments 2 and 3 (both provided electronically on the PUC Interchange) for the requested information.

	Production Demand Allocation			
	Revised		Filed	
	2020		2020	
Wholesale	320.023	8.332%	320.02	8.213%
Arkansas	744.667	19.388%	773.089	19.840%
Louisiana	1,358.653	35.373%	1,364.504	35.018%
Texas	1,417.574	36.907%	1,438.923	36.928%
	3,840.916	100.000%	3,896.538	100.000%

	Transmission Demand Allocation			
	Revised		Filed	
	MW	%	MW	%
Arkansas	597.304	19.516%	624.715	20.076%
Louisiana	1,117.380	36.508%	1,123.328	36.099%
Texas	1,345.942	43.976%	1,363.750	43.825%
Wholesale	-	0.000%	-	0.000%
	3,060.626	100.000%	3,111.794	100.000%

ETSWD HIGHSLY SENSITIVE Attachment 1 responsive to this request is HIGHLY SENSITIVE PROTECTED MATERIAL under the terms of the Protective Order. Due to current restrictions associated with COVID-19, this information is being provided electronically and a secure login to access the information will be provided upon request to individuals who have signed the Protective Order Certification.

Prepared By: Earlyne T. Reynolds — Title: Reg Pricing & Analysis Mgr

Sponsored By: Chad-M. Burnett — Title: Dir Economic Forecasting

Sponsored By: John O. Aaron — Title: Dir Reg Pricing & Analysis